

Should I buy farmland or rent?

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Most of us in the South can relate to Gerald O'Hara in "Gone with the Wind" (1939) when he said, "It will come to you, this love of the land.



There's no gettin' away from it if you're Irish." Certainly anyone who has ever farmed has wanted to own the land he farms.

Several of my clients began buying farmland several years ago in the \$800-\$1,200 per acre range. At the time it was a stretch, but all of them are glad they did. With good farmland renting in the \$130+ per acre range I am seeing a lot of farmers considering buying land. A lot of good land is selling in the \$2,000 an acre and up range, and many are wondering if a farmland bust similar to the housing bust is coming. Farmland prices are cyclical like any other investment and at some point escalating prices will decline. But it is impossible to time any market, so as a farmer, you just have to consider all the factors.

Some of the factors you want to consider include:

- How long do you intend on farming?
- How close to other land you own or farm is the property?
- Will you need additional equipment to farm the property?
- How much do you owe on your other property?
- How much equity do you have in your equipment?
- How many non-farm assets do you have?
- Do you rent any of the land you are farming and if so, how much is the rent per acre?
- How much is the government payment on the land you plan to purchase?
- Is the property transitional property or property that is likely to be transitional property in the future?
- How sellable is the property should you need to liquidate it?
- How much non-farm cash flow do you have from non-farm jobs, investments or other non-farm sources?
- Do you have any inheritance coming?
- Do you have a strong banking relationship?
- Do you know how you would make the annual payment if you have a bad year?
- What are the historical yields on the property?
- What has your profitability record

been in farming?

- Does your health allow you to obtain life insurance at a reasonable price?
- Do you have any health problems that could affect your ability to farm?
- Are there any additional improvements needed on the purchased property?

One of the first things I always look at is how much cash outlay per acre the farmer will have if he buys the land. For example, let's assume a farmer owns 600 acres of good farmland free of any debt and rents another 1,200 acres that adjoins his property. The property taxes on the land he owns amounts to \$7 per acre. His landlord has informed him he intends on raising the rent to \$150 per acre and will only give him a one year lease. The landlord is also looking for a buyer and is offering to sell him the land for \$3,000,000 (\$2,500 per acre). If he decides to rent the land his annual cash outlay for the land will be \$102 per acre across the board (\$4,200 land taxes on 600 acres and \$180,000 rent on the 1,200 acres).

Since he intends on farming another 30 years he is concerned about losing the 1,200 acres. He is looking at using the land he owns as well as the purchased property as collateral to obtain a 30 year mortgage of \$3,000,000 at 6.5% in order to buy the 1,200 acres. If he elects this option, his

annual payment on the mortgage will be \$229,732 and the taxes on the land will be \$12,600 for an annual outlay of \$135 an acre. His debt to value ratio will be 67% assuming the land he owns is worth \$2,500 an acre. Certainly this is a stretch and he would want to consider all the other factors before making a decision.

The choice would be a lot easier if in the above example he owned 1,200 acres and rented 600 acres. In that scenario the annual land outlay would be \$55 an acre if he elected to rent and \$71 an acre if he decided to purchase. His debt to value ratio would be 33% under this scenario.

Before making a final decision find a financial advisor you trust to help you go over all the factors. In the end it is your decision. You are the pilot in command responsible for whatever happens.

If you would like a free copy of our crop planning software give me a call at 662-887-4557 or e-mail me at dSTALLINGS@bairdandstallings.com. Prepare your plan, stick to your plan, and make money in 2009. **DBJ**

(Don Stallings is a shareholder in the Tri-annuala, Ms. accounting firm, Baird & Stallings, CPAs, P.A. He is a certified public accountant, a certified valuation analyst, and a certified forensic financial analyst.)